



NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

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The Presidio Trust: Developing a National Park While Attaining Self-Sufficiency

STATEMENT OF

**Dr. Royce Hanson
Project Panel Member**

Before the

**Subcommittee on Interior and Related Agencies
Committee on Appropriations
U. S. House of Representatives**

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before the Subcommittee to discuss the National Academy of Public Administration's recently completed financial analysis and organizational study of the Presidio Trust Corporation. The Academy Panel conducting the study was chaired by Dr. Jane Pisano and included Robert Bobb, Alan Dean, and William Hamm, in addition to myself. Accompanying me today are Panel member Alan Dean and Kenneth Ryder, the Project Director for the study. Short biographies of the Panel and Mr. Ryder are attached to my statement.

In March of 2003, the Trust contracted with the Academy to review and assess its business and management practices and the effectiveness of its current organizational structure. This was in response to congressional interest in obtaining an independent assessment of the Trust's ability to achieve its dual statutory goals, namely to attain financial self-sufficiency by 2013, and to preserve and enhance the cultural, natural, scenic, and recreational resources of the Presidio.

The Panel published its report entitled *The Presidio Trust: Developing a National Park While Attaining Self-Sufficiency*, in January 2004. During the Panel's review, we received full and open cooperation from Chairman Toby Rosenblatt and the other Trust Board members, as well as Craig Middleton the Executive Director and his staff. We also received excellent cooperation from Brian O'Neill, the Superintendent at Golden Gate National Recreation Area, and his staff.

Mr Chairman, from the very outset the Panel recognized the enormity of the mission given the Trust, as well as the financial and management challenges it faced. It also recognized the unique opportunity the Trust and the National Park Service (NPS) have to provide lasting benefits to the American public by transforming the Presidio from a military base into a viable and vibrant national park site. In creating the Trust as an independent federal corporation in 1996, Congress acknowledged that routine agency management practices and federal resources alone would not be sufficient to complete

this transformation and preserve the Presidio's unique resources. The enhanced financial authorities and management flexibility provided to the Trust are essential to this task, and must be used effectively if the Trust is to be successful in the long-run.

THE BOTTOM LINE

The Panel and project staff intensively reviewed the Trust's long range financial projections, the assumptions underlying them, and the policies and practices guiding Trust operations. They also used a financial projection model to evaluate the Trust's financial viability under a range of alternative economic scenarios. This analysis confirmed that the Trust can meet its 2013 financial self-sufficiency mandate and maintain a modest cash reserve to meet financial contingencies. But, the margin of safety—that is the size of the annual cash reserve—is small, especially given the considerable challenges and financial risks confronting the Trust.

The Panel believes that how the Trust achieves its financial self-sufficiency mandate is critically important. The Trust might become financially self-sufficient by 2013 in a number of ways. But, it must also complete the preservation and rehabilitation projects and maintain the Presidio as a viable, attractive national park site to be fully successful. In other words, the Panel strongly believes that the Trust's two statutory goals—creating and preserving a national park site and achieving financial self-sufficiency by 2013—are equally important and inseparable.

The Trust Board has made and must continue to make difficult decisions on individual Presidio redevelopment or rehabilitation projects that require trade-offs between preserving the existing environment and obtaining future revenues. Mr. Chairman, the Panel believes that its recommendations to improve the Trust's long-term financial viability should also provide additional resources to help the Trust complete the transformation of the Presidio into a viable and vibrant part of the national park system.

KEY PANEL RECOMMENDATIONS

The Panel's report contains the analysis supporting its recommendations related to:

- Realizing the goals of a national park,
- Enhancing the Trust's financial planning,
- Strengthening its financial viability, and
- Enhancing the role of the Board.

Mr. Chairman, I would like to identify the Panel's key recommendations in each of these areas and explain their rationale.

Realizing the Goals of a National Park Site

The Trust and NPS share responsibility for the national park goals. The Trust controls 80 percent of the Presidio land area—essentially the 1,200 interior acres with most of the 469 historic buildings, which is referred to as Area B. NPS manages the remaining 20 percent—essentially those areas adjoining the San Francisco Bay and Pacific Ocean, which is referred to as Area A. However, the Presidio Trust Act gave NPS responsibility for public interpretive services, visitor orientation and education programs for the entire Presidio. Notwithstanding the geographical division and shared responsibilities, the public sees the Presidio as a single entity, since there is no natural boundary separating Area A from Area B.

The Panel believes that strengthening the critical partnership between the Trust and NPS is essential if the agencies are to achieve their common goal of preserving the Presidio and establishing it as a welcoming destination for national park visitors. While the agencies have worked together effectively on a range of natural resources projects such as reforestation, and restoring Mountain Lake, their efforts in cultural resources and educational and visitor program development are less integrated. The Panel found that more of an equal partnership existed in the natural resources area, but that the current

statute created a senior/junior relationship between NPS and the Trust in the cultural and program areas. To establish a more equal partnership, the Panel recommends that:

The Presidio Trust Act be amended to read, “The Secretary and the Presidio Trust be jointly responsible for providing public interpretive services, visitor orientation and educational programs, in Area B of the Presidio. The Secretary shall be responsible for providing these services in Area A.”

The Panel believes that an equal relationship will better link the contribution of resources with program decision-making, an important foundation for an effective partnership. In addition, as the Trust works to raise additional philanthropic funds, it needs to have a strong voice in designing those cultural and educational programs for which those funds were donated.

Philanthropy plays a critical role in helping fund and support a range of park services throughout the national park system. The Panel found that the Trust’s planned role for philanthropy at the Presidio is reasonable and consistent with philanthropy’s role for other national parks. The Trust is working closely with the Golden Gate National Park Conservancy, which is a nonprofit organization that assists the Golden Gate National Recreation Area in obtaining volunteers and philanthropic funding. Their joint efforts are currently focused on defining the respective roles of each in securing greater philanthropic support for the Presidio. However, more could be done to accelerate these philanthropic activities.

The Panel believes that successful philanthropic funding efforts depend on two critical factors: (1) effective staff work to identify potential opportunities and to follow up on initial commitments, and (2) active involvement of Board members to use their extensive network of contacts to secure funding support. To accelerate current Trust philanthropic efforts, the Panel is recommending three key actions:

First, that the Board establish long-term philanthropic funding goals for desired park services that cannot be financed from internal Trust revenue sources.

Second, that the Trust develop a consolidated philanthropic funding plan for the Presidio that considers the Trust's goals and coordinates with those of the rest of the Golden Gate National Recreation Area.

And third, that the Executive Director hire a philanthropic development officer to coordinate Board and staff activities related to securing philanthropic support.

Enhancing the Trust's Financial Planning

The Trust's financial self-sufficiency mandate has made effective long-range financial planning essential. The Trust developed a long-term financial plan and submitted it to the Congress in July 1998. However, that financial plan has not been formally updated even though many of the underlying assumptions have been superseded by policy changes, actual developments at the Presidio, and dramatic changes in economic conditions in the San Francisco area.

The Panel believes the Trust has done an excellent job of presenting its vision for the future long-term operation of the Presidio, and the policies and planning principles for achieving that vision, as set forth in the May 2002 *Presidio Trust Management Plan: Land Use Policies for Area B of the Presidio of San Francisco* (the PTMP). But, this broad land use plan is not a detailed implementation plan that identifies the long-term financial requirements, including specific development, operation and other service costs for Area B. Such a plan can better inform the public about the long term benefits expected from specific Board decisions on individual projects and their sensitive trade-offs between environmental preservation and future revenues. To fill this need, the Panel recommends that:

- **The Trust staff develop and the Board approve a comprehensive, detailed, long-range financial plan showing how the PTMP can be implemented, natural resources and cultural values enhanced, and financial self-sufficiency attained between now and 2013.**
- **The Board establish targets for the desired mix and level of park services and their associated costs within its comprehensive long-range financial plan.**

The Panel and staff reviewed the financial forecasting model that the Trust uses to assess development alternatives, monitor progress, and show the impact of other changes on the Trust's long-term financial viability. The Panel found that the model has been more than adequate for past needs. But, going forward, the modeling process must anticipate and address the full range of the Presidio mission, revenue, and spending alternatives.

The Panel has several recommendations to improve the Trust's financial forecasting model. It also reaffirms the importance of involving the Trust Board and senior management at the earliest stages of further model development to ensure that the model will meet the strategic goals and objectives of the corporation. The key recommendations include:

- **Senior management develop and the Board approve model requirements before additional model development takes place.**
- **The Trust document its current financial forecasting model.**
- **The Trust replace the constant dollar assumption with an assumption that applies appropriate inflation rates to those cost and revenue components that are sensitive to inflation.**

Strengthening the Trust's Financial Viability

The Panel found that, over the last five years, the Trust has improved its long-term financial outlook by quickly developing more space for residential use and moving aggressively to control its operating costs despite the deteriorating economic conditions in San Francisco during 2001 and 2002. Because the Trust will continue to encounter major challenges and financial risks in accomplishing its unique mission, the Panel made several recommendations to further improve the Trust's financial outlook or reduce its risks, including that the Trust:

- **Develop specific program regulations to use its already appropriated loan guarantee authority to provide lower-cost financing for many of the remaining major building and other nonresidential rehabilitation projects.**
- **Seek a small credit subsidy appropriation for its direct loan authority once it has successfully used some of its existing loan guarantees.**
- **Solicit contract proposals that provide for joint (Trust and developer) financing of nonresidential projects.**
- **Begin billing tenants separately for utility costs once buildings are individually metered.**
- **Establish a formal joint working group with NPS to develop new user fees affecting use of the Presidio.**
- **Terminate all residential and nonresidential rent subsidies.**

Some of these recommendations would increase Trust revenues directly. Others would help reduce the costs of rehabilitating or preserving historic structures. While implementing these recommendations should improve the Trust's ability to meet its future challenges, it will continue to face unexpected risks. To guard against such unexpected financial risks, the Panel recommends that:

The Trust staff propose and the Board approve a contingency reserve large enough to absorb expected adverse effects from various alternative economic scenarios, including costs stemming from the aging of the infrastructure and the stock of historic buildings.

Enhancing the Board Role

The Trust Board has made substantial contributions to the progress that has been made to date. Through the summer of 2003, the Trust Board was predominantly a founding Board, with five of the seven members original appointees. The Board has begun to evolve as three new members have replaced those whose terms expired. Over the next two years, the evolution will be completed as the remaining members reach their statutory term limits. The Panel recommends that the Board and staff put in place a set of procedures to sustain Board involvement on broad policy issues and secure members' input on those specific operational issues they choose to pursue. These new procedures would also help to further develop and formalize a more structured communication process between the Trust Board and staff that will be important for new Board members. The specific recommendations for these enhanced procedures are in our report.

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Mr. Chairman, in conclusion, the Panel believes that the Trust has made considerable progress toward meeting its dual statutory goals under unique and sometimes difficult circumstances. The Panel believes the Trust can meet its 2013 financial self-sufficiency mandate, but the margin of safety is small. Moreover, how the Trust meets that mandate is critically important. The Trust must not only become financially self-sufficient, but must also complete and sustain the transformation of the Presidio into a viable, vibrant

national park site. The Panel's recommendations to reinforce critical partnerships, improve the Trust's financial planning, strengthen its financial viability, and enhance the Board's role will help the Trust achieve its challenging, but inseparable, dual statutory goals.

BIOGRAPHIES OF ACADEMY PANEL MEMBERS

CHAIR

Jane G. Pisano—President and Director, Natural History Museum of Los Angeles County. Former Senior Vice President, External Relations and C. Erwin and Lone L. Piper Dean, School of Public Administration, University of Southern California; President, The 2000 Partnership; President, Los Angeles 2000 Committee; Director, Olympic Programs, Corporate Administration, The Times Mirror Company.

MEMBERS

Robert C. Bobb—City Manager, City of Oakland, California. Former City Manager, City of Richmond, Virginia; City Manager, City of Santa Ana, California; City Manager, City of Kalamazoo, Michigan.

Alan L. Dean—Consultant. Former Vice President for Administration, U.S. Railway Association; Deputy Assistant Director, U.S. Office of Management and Budget; Assistant Secretary for Administration, U.S. Department of Transportation; Associate Administrator for Administration, Federal Aviation Agency.

Royce Hanson—Visiting Professor, Policy Science Graduate Program, University of Maryland Baltimore County. Former Professor and Dean, School of Social Sciences, University of Texas at Dallas; Associate Dean and Professor, Hubert H. Humphrey Institute of Public Affairs, University of Minnesota; Senior Staff Officer, National Research Council, National Academy of Sciences; Chairman, Montgomery County (Maryland) Planning Board; Chairman, Maryland National Capital Park and Planning Commission.

William G. Hamm—Managing Director, LECG. Former Principal, Law & Economics Consulting Group, Inc.; Executive Vice President, Chief Operating Officer, and Senior Vice President, Federal Home Loan Bank of San Francisco; Vice President, World Savings and Loan; Legislative Analyst, State of California; Deputy Associate Director, U.S. Office of Management and Budget.

STAFF DIRECTOR

Kenneth F. Ryder Jr.—Financial and Economic Consultant; Former Senior Executive Service; Executive Director, Research and Analysis, Office of Thrift Supervision; Deputy Associate Director Housing, Treasury and Finance Division, and Special Studies Division, Economics and Government, U.S. Office of Management and Budget. Economist, the Rand Corporation.